Statement of

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on

Medicaid:
Empowering Beneficiaries on the Road to Reform

before the

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of the

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My name is Frank Keating and I am President and CEO of the American Council of Life Insurers (ACLI), a Washington, D.C.-based trade association whose 356 member companies account for 80 percent of the life insurance industry's total assets in the United States. ACLI member companies offer life insurance; annuities; pensions, including 401(k)s; long-term care insurance; disability income insurance; reinsurance; and other retirement and financial protection products. ACLI member companies also provide 81 percent of the long-term care insurance coverage in the United States.

ACLI is delighted that the Committee is addressing an important issue facing this nation -- long-term care. We applaud Chairman Barton for drawing attention to this matter, and we are pleased to discuss with the Committee the role that private long-term care insurance plays in helping to provide retirement security for millions of middle-income families.

One of the greatest risks to asset loss in retirement is unanticipated long-term care expenses. The risks of needing nursing home care also are substantial. Over half of women and nearly one-third of men 65 and older will stay in a nursing home sometime during their lifetime.[1] According to the 2005 Genworth Financial 2005 Cost of Care Study, the annual cost of a nursing home stay currently is almost $70,000. This increased by 6% in the past year alone. The cost of Long Term Care services can quickly erode a hard-earned retirement nest egg.

Current Financing for Long-Term Care Services

- **Long-Term Care Insurance**

The long-term care insurance market is growing in both the individual and group segments. Long-term care insurance products continue to adapt to give policyholders more choices and flexibility at the time of claim. For instance, the market has evolved from one that offered primarily nursing home-only plans early on, to one that offers flexible care options and numerous consumer protections today. Most policies allow customers to choose between in-home care, assisted living facilities and nursing homes, encouraging the individual and their families to customize his or her care needs. In addition, policies offer the services of a care coordinator at the time of claim to help craft a plan of care and identify local care providers.

Plans today are guaranteed renewable, have a 30-day “free look” period, offer inflation protection, cover Alzheimer’s disease, have a waiver of premium provision, and offer unlimited benefit periods. Benefits are paid when a person needs help with two or more activities of daily living or is cognitively impaired.

[1] Murtaugh, C.M., P. Kemper, and B.C. Spillman (1990). The Risk of Nursing Home Use in Later Life. *Medical Care* 28(10): 952-62.

Industry data shows that between 1994 and 1997 the average issue age for private long-term care policies was over 67 and today's average issue age currently stands at 58 years of age.

- **Long-Term Care Partnerships**

Increasingly, states are tackling the costs of long-term care and are exploring ways to partner with the private insurance industry to alleviate a continuously growing Medicaid burden. One such way is through the *Partnerships for Long-Term Care,* a pilot program developed by the Robert Wood Johnson Foundation in conjunction with state governments and the support of the private insurance industry.

The Partnerships allow consumers to purchase a long-term care policy whose benefits must be fully utilized prior to qualifying for Medicaid. When that coverage is exhausted, individuals may apply for Medicaid, as they would have without the private insurance. Because they utilized their insurance coverage under the Partnership, they can protect the level of assets as defined in their state's program.

Partnerships have taken the form of two models. The dollar-for-dollar model allows people to buy a policy that protects a specified amount of assets. The total asset model provides protection for 100 percent of assets once they exhaust their private insurance coverage.

The Partnership program is currently operational in four states: California, Connecticut, Indiana and New York. More than 225,000 long-term care insurance Partnership policies have been purchased in those states, and fewer than 100 policyholders have exhausted their policies and accessed Medicaid. The Partnership benefits consumers, Medicaid, and private insurers.

In 1993, shortly after the Partnership pilots began, Congress suspended expansion of the Partnership to any additional states. The pilots were stopped due to concerns that a publicly funded program such as Medicaid would endorse private insurance programs. Others were concerned that the Partnership might increase Medicaid spending. However, as Medicaid costs increase, Congressional representatives from non-Partnership states have become interested in implementing Partnership programs. In addition, 18 states have passed legislation that would implement a Partnership once the 1993 restrictions are withdrawn or waived. The long-term care insurance industry is interested in expanding the Partnership beyond the four pilot states and is actively engaged in a public policy dialogue that is intended to utilize the lessons learned from those four Programs.

ACLI believes that the simplified uniform approach in House Bill HR 3511, sponsored by Representative Burgess and cosponsored by Representatives

Johnson, Peterson, Pomeroy and Jindal is the most appropriate approach for expansion of the long-term care Partnership Program. HR 3511 provides Partnership eligibility for any state approved tax-qualified long- term care policy. The bill's provisions also include state reciprocity; dollar for dollar asset protection; uniform, simplified annual reporting to a single repository and agent training and consumer education, all of which can play an important role in encouraging the purchase of long-term care insurance and help provide important savings to Medicaid. We thank Mr. Burgess and the members of this Committee for their support.

- **Incentives to Encourage Individuals to Buy Long-Term Care Insurance**

ACLI also supports legislation that provides individuals with a phased-in above-the-line federal income tax deduction for the eligible portion of the premiums they pay to purchase long-term care insurance. The long-term care policies eligible for the deduction are subject to broad consumer protections. In addition, ACLI supports measure to permit long-term care insurance policies to be offered under employer-sponsored cafeteria plans and flexible spending accounts.

Expansion of the Partnerships, along with these important tax incentives, will go a long way toward encouraging the purchase of long-term care insurance by middle-income Americans. Moreover, encouraging people to plan for their own long term care needs will reduce the burden on the Medicaid system. Individuals will have the ability to pay privately and have the choice of a variety of services and care settings.

While the financial benefits to individual policyholders are obvious, the benefits to government - and future taxpayers - of wider purchase of private long-term care insurance are substantial. By the year 2030, Medicaid's nursing home expenditures could reach $134 billion a year – up 360 percent over 2000 levels. ACLI's research, previously reported in "Can Aging Baby Boomers Avoid the Nursing Home," March 2000, indicates that by paying policyholders' nursing home costs - and by keeping policyholders out of nursing homes by paying for home- and community-based services, private long-term care insurance could reduce Medicaid's institutional care expenditures by $40 billion a year, or about 30 percent.

In addition, the same ACLI study found that wider purchase of long-term care insurance could increase general tax revenues by $8 billion per year, because of the number of family caregivers who would remain at work. Today, according to a recent study by the National Alliance for Caregiving, 6 percent of caregivers quit work to care for an older person; nearly 10 percent have to cut back their work schedules; 17 percent take leaves of absence, and 4 percent turn down promotions because of their care giving responsibilities.

In conclusion, ACLI believes that protection and coverage for long-term care is critical to the economic security and peace of mind of all American families. Private long-term care insurance is an important part of the solution for tomorrow's uncertain future. As more than 77 million baby boomers approach retirement, the rapidly aging workforce, together with more employees caring for elderly parents, heighten the importance of long-term care planning as a workplace issue. As Americans enter the 21st century, living longer than ever before, their lives can be made more secure knowing that long-term care insurance can provide choices, help assure quality care, and protect their hard-earned savings when they need assistance in the future. We also believe that the costs to Medicaid --- and therefore to tomorrow's taxpayers --- will be extraordinary as the baby boom generation moves into retirement, unless middle-income workers are encouraged to purchase private insurance now to provide for their own eventual long-term care needs. Education, options, incentives and the efficient use of both public and private resources are critical to our nation's ability to finance long-term care in the decades ahead.

Again, the ACLI looks forward to working with this Committee to help Americans protect themselves against the risk of long-term care needs.